

Cost Components Used To Project Costs

The current reimbursement methodology provides for a prospective flat-rate system, with facilities divided into categories by licensure, and then, with the exception of distinct-part level B facilities, peer groups by level of care, geographic area, and/or bedsize. Rates for each category and peer group are based on each facility's annual or fiscal period closing cost report. All reported costs are adjusted based on audits of reported costs performed by the Department's Audits and Investigations Program. The adjusted costs are then projected forward to the upcoming rate year using various update factors.

Adjusted costs are segregated into four categories: (1) fixed costs, which consist of interest, depreciation, leasehold improvements, and rent; (2) property taxes; (3) labor; and (4) all other costs. Long-Term Care Reimbursement Unit staff then develop or use established economic indicators to update the costs from the midpoint of the facility's reporting period to the midpoint of the Medi-Cal rate year, which runs from August 1 through July 31.

Fixed Costs

Fixed costs, which typically represent approximately 10.5 percent of total costs, are not updated, given that these costs are relatively constant from year to year. Specifically, depreciation schedules are largely unchanged, and, while leases often have escalator clauses, the interest on loans decreases each year due to amortization.

Property Taxes

Property taxes, which only represent about 0.5 percent of total costs, are updated by 2 percent annually, in accordance with Proposition 13.

Labor Costs

Labor costs, which include salaries, wages, and benefits, are by far the majority of long-term care facility's operating costs, and typically represent roughly 65 to 70 percent of total costs. The update factor for labor is developed by Rate Development Branch staff using labor costs reported by the facilities.

All Other Cost

The remaining costs, the "all other" costs category, is usually about 24 percent of total costs and is updated using the California Consumer Price Index.

Costs Attributable to Federal and State Mandates

The costs that will be incurred as the result of any new federal or state mandates are added to the updated costs to arrive at a final projected cost.

